

**UPPER PENINSULA
SUBSTANCE ENFORCEMENT TEAM**

FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

TABLE OF CONTENTS

Independent Auditors' Report	3
Management's Discussion and Analysis.....	5
Governmental Funds Balance Sheet/Statement of Net Assets.....	9
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	10
Notes to Financial Statements	11

Required Supplemental Information

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual...	17
---	----

Additional Information

Schedule of Operating Expenditures	19
--	----

Compliance Supplements

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Management Letter	23



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITOR'S REPORT

Executive Board of
Upper Peninsula Substance Enforcement Team
PO BOX 364
Gwinn, Michigan 49841

We have audited the accompanying financial statements of the governmental activities of the Upper Peninsula Substance Enforcement Team, as of and for the year ended September 30, 2008, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Upper Peninsula Substance Enforcement Team's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Upper Peninsula Substance Enforcement Team, as of September 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009, on our consideration of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Executive Board of
Upper Peninsula Substance Enforcement Team

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Andersen, Tackman, & Company, P.L.C.
Certified Public Accountants

January 16, 2009

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Upper Peninsula Substance Enforcement Team's financial performance provides an overview of the Upper Peninsula Substance Enforcement Team's financial activities for the year ended September 30, 2008. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Upper Peninsula Substance Enforcement Team as a whole decreased by \$81,099 as a result of this year's operations.
- The general fund reported a decrease in fund balance of \$79,125.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Upper Peninsula Substance Enforcement Team as a whole and present a longer-term view of the Upper Peninsula Substance Enforcement Team's finances. Expenditure schedules for each Upper Peninsula Substance Enforcement Team Program start on page 19. These statements report the Upper Peninsula Substance Enforcement Team's operations in more detail than the Agency-wide statements showing expenditures for each program by main expense category.

Reporting the Upper Peninsula Substance Enforcement Team as a Whole

Our analysis of the Upper Peninsula Substance Enforcement Team as a whole begins on page 6. One of the most important questions asked about the Upper Peninsula Substance Enforcement Team's finances is "Is the Upper Peninsula Substance Enforcement Team as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Upper Peninsula Substance Enforcement Team as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Upper Peninsula Substance Enforcement Team's *net assets* and changes in them. You can think of the Upper Peninsula Substance Enforcement Team's net assets - the difference between assets and liabilities - as one way to measure the Upper Peninsula Substance Enforcement Team's financial health, or *financial position*. Over time, *increases or decreases* in the Upper Peninsula Substance Enforcement Team's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Upper Peninsula Substance Enforcement Team's client base and the condition of the Upper Peninsula Substance Enforcement Team's capital assets, to assess the *overall financial health* of the Upper Peninsula Substance Enforcement Team.

All of the Upper Peninsula Substance Enforcement Team's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Upper Peninsula Substance Enforcement Team's basic services are reported here. Upper Peninsula Substance Enforcement Team activities are primarily funded by state and local sources of funds and forfeitures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Reporting on the Upper Peninsula Substance Enforcement Team's General Fund

All Upper Peninsula Substance Enforcement Team programs and services are reported in the General Fund. Our analysis of the Upper Peninsula Substance Enforcement Team's general fund begins on page 7. This financial statement provides detailed information on Upper Peninsula Substance Enforcement Team's expenditures by reporting unit.

- *Governmental funds*—All of the Upper Peninsula Substance Enforcement Team's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Upper Peninsula Substance Enforcement Team's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Upper Peninsula Substance Enforcement Team's programs.

The Upper Peninsula Substance Enforcement Team as a Whole

Table I provides a summary of the Upper Peninsula Substance Enforcement Team's net assets as of September 30, 2008 and 2007.

Table 1
Net Assets

	Governmental Activities - 2008	Governmental Activities - 2007
		\$
Current and other assets	\$ 139,102	218,332
Capital assets, net	62,106	64,080
Total Assets	201,208	282,412
Current liabilities	18,899	19,004
Non-current liabilities	-	-
Total Liabilities	18,899	19,004
Net Assets:		
Invested in capital assets, net of related debt	62,106	64,080
Restricted	-	-
Unrestricted	120,203	199,328
Total Net Assets	\$ 182,309	\$ 263,408

Net assets of the Upper Peninsula Substance Enforcement Team's governmental activities stood at \$182,309. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$120,203.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The results of this year's operations for the Upper Peninsula Substance Enforcement Team as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2008 and revenue and expense in fiscal year 2008 compared to revenue and expense in fiscal year 2007.

Table 2
Change in Net Assets

	Governmental Activities – 2008	Governmental Activities – 2007
Revenues		
Federal Sources	\$ 50,000	\$ 586
Local Sources	41,804	86,773
Other Sources	57,665	103,575
Total Revenues	149,469	190,934
Program Expenses		
Operating expenditures	221,607	146,517
Forfeiture expenditures	8,961	5,982
Capital outlay	-	-
Total Expenses	230,568	152,499
Increase (decrease) in net assets	(81,099)	38,435
Net assets, beginning	263,408	224,973
Net Assets, Ending	\$ 182,309	\$ 263,408

The Upper Peninsula Substance Enforcement Team's total revenues were \$149,469. The total cost of all programs and services was \$230,568, leaving a decrease in net assets of \$81,099. Our analysis below considers in more detail the operation of the Upper Peninsula Substance Enforcement Team's programs (in governmental activities) during 2008.

Governmental Activities

To understand the operation of the Upper Peninsula Substance Enforcement Team, its programs and services can be seen as falling into one broad category: those basic to local public safety relating to substance enforcement in the Upper Peninsula. The Upper Peninsula Substance Enforcement Team's basic public safety services are funded by state grants, local funding and forfeitures. Local funding consists of local government contributions.

THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FUNDS

As the Upper Peninsula Substance Enforcement Team completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a fund balance of \$120,203, a decrease of \$79,125 from the beginning of the year. The prior years change in fund balance had an increase of \$40,409.

General Fund Budgetary Highlights

The Upper Peninsula Substance Enforcement Team creates a budget based on the previous year's operating results. This budget does not reflect revenue from any potential grant funding Upper Peninsula Substance Enforcement Team may be awarded during the budget year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The actual revenues for fiscal year 2008 were \$149,469, which is an increase of \$75,269 over the final budgeted revenues of \$74,200. Actual expenditures for fiscal year 2008 were \$228,594, which is an increase of \$56,344 over the final budgeted expenditures of \$172,250.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2008 and 2007, the Upper Peninsula Substance Enforcement Team had \$62,106 and \$64,080 invested in a variety of capital assets including land, buildings, and other equipment, respectively. (See table 3 below)

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities – 2008	Governmental Activities – 2007
Land	\$ 5,000	\$ 5,000
Buildings	57,106	59,080
Equipment and furnishings	-	-
Land improvements	-	-
Construction in progress	-	-
Totals	\$ 62,106	\$ 64,080

There were no capital asset additions for fiscal years 2008 and 2007. There was \$1,974 and \$1,974 in depreciation expense for the fiscal years 2008 and 2007, respectively.

Debt

The Upper Peninsula Substance Enforcement Team had \$-0- in long term liabilities at year end of fiscal years 2008 and 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Upper Peninsula Substance Enforcement Team's management staff bases their budget on the results of the previous year's activity and makes revisions as needed.

CONTACTING THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Upper Peninsula Substance Enforcement Team's finances and to show the Upper Peninsula Substance Enforcement Team's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Upper Peninsula Substance Enforcement P.O. Box 364, Gwinn, MI 49841.

Upper Peninsula Substance Enforcement Team
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2008

	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 50,716	\$ -	\$ 50,716
Accounts receivable	-	-	-
Due from local government units	88,386	-	88,386
Total Current Assets	<u>139,102</u>	<u>-</u>	<u>139,102</u>
Non Current Assets			
Capital assets - net	-	62,106	62,106
Total Non Current Assets	<u>-</u>	<u>62,106</u>	<u>62,106</u>
TOTAL ASSETS	<u><u>139,102</u></u>	<u><u>62,106</u></u>	<u><u>201,208</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	18,899	-	18,899
Deferred forfeiture	-	-	-
Total Current Liabilities	<u>18,899</u>	<u>-</u>	<u>18,899</u>
Non Current Liabilities			
Notes payable	-	-	-
Total Non Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u><u>18,899</u></u>	<u><u>-</u></u>	<u><u>18,899</u></u>
FUND BALANCE / NET ASSETS			
Fund Balance			
Unrestricted	120,203	(120,203)	-
TOTAL FUND BALANCE	<u>120,203</u>	<u>(120,203)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 139,102</u></u>		
Net Assets			
Invested in capital assets - net of related debt		62,106	62,106
Unrestricted		120,203	120,203
TOTAL NET ASSETS		<u><u>\$ 62,106</u></u>	<u><u>\$ 182,309</u></u>

The notes to the financial statements are an integral part of this statement.

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance / Statement of Activities
For the year ended September 30, 2008

	Modified Accrual Basis	Adjustments	Statement of Activities
REVENUES:			
Federal sources	\$ 50,000	\$ -	\$ 50,000
Local sources			
Contributions	31,804	-	31,804
Grants	10,000	-	10,000
Other sources			
Forfeitures	40,920	-	40,920
Restitution	2,503	-	2,503
Interest income	1,328	-	1,328
Reimbursements	12,914	-	12,914
TOTAL REVENUES	<u>149,469</u>	<u>-</u>	<u>149,469</u>
EXPENDITURES			
Operating expenses	219,633	1,974	221,607
Forfeiture expenses	8,961	-	8,961
Capital outlay	-	-	-
TOTAL EXPENDITURES	<u>228,594</u>	<u>1,974</u>	<u>230,568</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(79,125)</u>	<u>(1,974)</u>	<u>(81,099)</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	<u>199,328</u>	<u>64,080</u>	<u>263,408</u>
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 120,203</u>	<u>\$ 62,106</u>	<u>\$ 182,309</u>

The notes to the financial statements are an integral part of this statement.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Upper Peninsula Substance Enforcement Team is an unincorporated interagency of numerous law enforcement agencies in Upper Michigan. The participating agencies entered into this agreement to create the Upper Peninsula Substance Enforcement Team for the purpose of combining their efforts towards the enforcement of narcotics and controlled substance laws of the State of Michigan.

The financial statements of the Upper Peninsula Substance Enforcement Team have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Upper Peninsula Substance Enforcement Team are described below.

(1) REPORTING ENTITY

In evaluating the Upper Peninsula Substance Enforcement Team as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Upper Peninsula Substance Enforcement Team may or may not be financially accountable and, as such, be includable within the Upper Peninsula Substance Enforcement Team's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Upper Peninsula Substance Enforcement Team's basic financial statement is government-wide (reporting the Upper Peninsula Substance Enforcement Team as a whole). All the Upper Peninsula Substance Enforcement Team's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Upper Peninsula Substance Enforcement Team's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Upper Peninsula Substance Enforcement Team first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Upper Peninsula Substance Enforcement Team's functions. The functions are supported by state grants, local contributions and forfeitures. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the Upper Peninsula Substance Enforcement Team as an entity and the change in the Upper Peninsula Substance Enforcement Team's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Upper Peninsula Substance Enforcement Team:

General Fund - General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Upper Peninsula Substance Enforcement Team reports the following major governmental funds:

The **General Fund** is the Upper Peninsula Substance Enforcement Team's primary operating fund. It accounts for all financial resources of the Upper Peninsula Substance Enforcement Team.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting - The Upper Peninsula Substance Enforcement Team follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Upper Peninsula Substance Enforcement Team Administrator submits to the Upper Peninsula Substance Enforcement Team's Board of Director's proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Opportunities exist for public comment during the budget process since all action by the Board of Directors occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Upper Peninsula Substance Enforcement Team budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Upper Peninsula Substance Enforcement Team's Board of Directors, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Upper Peninsula Substance Enforcement Team adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Directors, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Upper Peninsula Substance Enforcement Team as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	5-20 years
Vehicles	5 years

Long-Term Liabilities – In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE B – CASH AND INVESTMENTS:

Cash and Equivalents

The Organization's cash and equivalents, as reported in the Statement of Net Assets, consist of the following:

Checking account	\$ 40,716
Petty cash	10,000
Total	<u>\$ 50,716</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. State law does not require and the Organization does not have a deposit policy for deposit custodial credit risk. The carrying amounts of Upper Peninsula Substance Enforcement Team's deposits with financial institutions were \$40,716 and the bank balance was \$40,679. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 40,679
Amount uncollateralized and uninsured	-
TOTAL	<u>\$ 40,679</u>

The Organization has no investments at September 30, 2008.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS

The \$88,386 due from local government units represents the forfeited cash proceeds from the sale of property that is held by the City of Escanaba in a third party fiduciary relationship according to state and federal law.

NOTE D – CAPITAL ASSETS:

Capital asset activity of the Upper Peninsula Substance Enforcement Team for the current year was as follows:

	<u>Balances 9/30/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 9/30/07</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Subtotal	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Capital assets being depreciated:				
Land Improvements	-	-	-	-
Buildings	66,976	-	-	66,976
Equipment	132,601	-	-	132,601
Total Capital Assets Being Depreciated	<u>199,577</u>	<u>-</u>	<u>-</u>	<u>199,577</u>
Less Accumulated Depreciation:				
Land Improvements	-	-	-	-
Buildings	(7,896)	(1,974)	-	(9,870)
Equipment	(132,601)	-	-	(132,601)
Total Accumulated Depreciation	<u>(140,497)</u>	<u>(1,974)</u>	<u>-</u>	<u>(142,471)</u>
Governmental Activities Capital Assets, Net	<u>\$ 64,080</u>	<u>\$ (1,974)</u>	<u>\$ -</u>	<u>\$ 62,106</u>

NOTE E – BUDGET VIOLATIONS:

Public Act 621 of 1978, Section 18 (1), as amended, provides that a Local Unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Organization's actual expenditures and budgeted expenditures have been shown on an activity/program level.

The following funds had excess expenditures over appropriations at September 30, 2008.

<u>Fund Activity/Program</u>	<u>Final Amended Budget</u>	<u>Actual Expenditure</u>	<u>Variance</u>
General Fund	\$172,250	\$228,594	\$56,344

Required Supplemental Information

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ 50,000	\$ 50,000
Local sources				
Contributions	70,000	70,000	31,804	(38,196)
Grants	-	-	10,000	10,000
Other sources				
Forfeitures	2,000	2,000	40,920	38,920
Restitution	600	600	2,503	1,903
Interest income	800	800	1,328	528
Reimbursements	800	800	12,914	12,114
TOTAL REVENUES	<u>74,200</u>	<u>74,200</u>	<u>149,469</u>	<u>75,269</u>
EXPENDITURES:				
Operating	139,000	162,250	219,633	(57,383)
Forfeiture	6,000	10,000	8,961	1,039
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>145,000</u>	<u>172,250</u>	<u>228,594</u>	<u>(56,344)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(70,800)</u>	<u>(98,050)</u>	<u>(79,125)</u>	<u>18,925</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	<u>199,328</u>	<u>199,328</u>	<u>199,328</u>	<u>-</u>
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 128,528</u>	<u>\$ 101,278</u>	<u>\$ 120,203</u>	<u>\$ 18,925</u>

Additional Information

Upper Peninsula Substance Enforcement Team
Schedule of Operating Expenditures
For the year ended September 30, 2008

OPERATING EXPENDITURES

Advertising	\$ 645
Personnel	7,556
Communications	10,256
Equipment expense	7,128
Insurance	2,028
Professional services	3,200
Supplies	11,717
Transportation	80,968
Training	917
Repairs and maintenance	1,206
Utilities	8,835
Payments to other governmental units	50,000
Miscellaneous	35,177

TOTAL OPERATING EXPENDITURES	<u>\$ 219,633</u>
------------------------------	-------------------

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Executive Board of
Upper Peninsula Substance Enforcement Team
PO BOX 364
Gwinn, Michigan 49841

We have audited the financial statements of the governmental activities of Upper Peninsula Substance Enforcement Team, as of and for the year ended September 30, 2008, which collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Upper Peninsula Substance Enforcement Team's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Upper Peninsula Substance Enforcement Team's financial statements that is more than inconsequential will not be prevented or detected by the Upper Peninsula Substance Enforcement Team's internal control. We consider the deficiencies described in the accompanying

Executive Board of
Upper Peninsula Substance Enforcement Team

report to management, dated January 16, 2009 to be significant deficiencies in internal control over financial reporting, as items 08-01, 08-02, and 08-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Upper Peninsula Substance Enforcement Team's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Peninsula Substance Enforcement Team's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying report to management dated January 16, 2009 as items 08-04.

Upper Peninsula Substance Enforcement Team's response to the findings identified in our audit is described in the accompanying report to management dated January 16, 2009. We did not audit Upper Peninsula Substance Enforcement Team's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Executive Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman, & Company, P.L.C.
Certified Public Accountants

January 16, 2009



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

Upper Peninsula Substance Enforcement Team

Report to Management Letter

For the Year Ended September 30, 2008

Executive Board of
Upper Peninsula Substance Enforcement Team
PO BOX 364
Gwinn, Michigan 49841

In planning and performing our audit of the financial statements of the governmental activities of Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

08-01 - Segregation of Duties (REPEAT)

Condition/Criteria: The accounting staff of the Upper Peninsula Substance Enforcement Team is made up of a limited number of staff, which does not allow full segregation of duties.

Effect: Because of the limited staff, there is an increased chance that misstatements in financial statements would not be prevented or detected on a timely basis.

Executive Board of
Upper Peninsula Substance Enforcement Team

Cause of Condition: The size of the organization's accounting staff precludes certain internal design controls that would be preferred if the office staffs were large enough to provide optimum segregation of duties.

Recommendation: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander
 - Chief Jim Hansen, Chairman of the Board
- Corrective action planned:
 - Det./Lt. Jeff Racine will continue to open and review all bank statements prior to forwarding to the bookkeeper.
 - The board will continue to observe its oversight responsibilities in relation to financial reporting.
- Anticipated completion date:
 - September 30, 2009

08-02 – NO BOARD MEETINGS

Condition/Criteria: The Executive Board of Upper Peninsula Substance Enforcement Team failed to hold board meetings during fiscal year 2008, which hindered the Boards ability to perform their oversight responsibilities.

Cause of Condition: Time and logistical constraints placed restrictions on the Boards ability to meet.

Effect: The role of the Board is to provide oversight supervision and guidance for the organizations activities. They are responsible for approving all disbursements before payment is made, as well as reviewing and approving interim financial information. The Executive Board is not able to perform the above functions when the Board does not have board meetings.

Recommendation: We recommend that the Executive Board start meeting again, on a regular basis, to perform their oversight responsibilities and to include, but not limit in those responsibilities, the approval of all disbursements and the review and approval of interim financial information.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander
 - Chief Jim Hansen, Chairman of the Board
- Corrective action planned:
 - The Executive Board of Upper Peninsula Substance Enforcement Team will begin to meet on a regular basis to carry out oversight responsibilities.
- Anticipated completion date:
 - September 30, 2009

Executive Board of
Upper Peninsula Substance Enforcement Team

08-03 – ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES.

Condition/Criteria: Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Cause of Condition: The staff of the organization does not have adequate time to prepare all the information included in the annual financial statements. Therefore, we assisted in the preparing the financial statements and related footnotes.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine
- Corrective Action Planned:
 - We are aware of this deficiency and believe it is not cost beneficial in our situation to allocate the time needed to prepare the audit report in the current fiscal year.
- Anticipated Completion Date:
 - September 30, 2009

INSTANCES OF NON-COMPLIANCE

08-04 – UNIFORM BUDGETING AND ACCOUNTING ACT (P.A. 621) (REPEAT)

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that local units shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the Upper Peninsula Substance Enforcement Team had actual expenditures and budgeted expenditures for the General Fund shown on a functional basis. The approved budgets of this fund were adopted on an activity and/or program level. During the year ended September 30, 2008, Upper Peninsula Substance Enforcement Team incurred functional expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Effect: The Upper Peninsula Substance Enforcement Team is not in compliance with State Law.

Recommendation: The Upper Peninsula Substance Enforcement Team should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Executive Board of
Upper Peninsula Substance Enforcement Team

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander
- Corrective Action Planned:
 - The budget will be more closely monitored and budget amendments will be made accordingly.
- Anticipated Completion Date:
 - September 30, 2009

This communication is intended solely for the information and use of management, Executive Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman, & Company, P.L.C.
Certified Public Accountants

January 16, 2009